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# CURRENT INTELLIGENCE WEEKLY SUMMARY

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## THE WEEK IN BRIEF

## PART I

OF IMMEDIATE INTEREST

## TAIWAN STRAIT SITUATION . . . . . Page 1

The Chinese Communists have deployed sufficient ground and air strength into the area opposite Taiwan to carry out an invasion of any of the offshore islands. There also continue to be indications of the gradual assembling of a naval force immediately north of the Matsus, but there is little evidence of any naval concentration near the Kinmens. Moscow, through its propaganda media, is apparently attempting to arouse world-wide apprehension over the possibility of large-scale hostilities. Peiping appears to be further committing itself to action against the offshore islands in its home press coverage. Peiping has issued a declaration defining its territorial waters as extending 12 miles from a base line drawn to include all its coastal islands. There has been little free-world press support for Taiwan's claim to the islands or for the concept of an American defense of them.

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## MIDDLE EAST DEVELOPMENTS . . . . . Page 4

In Jordan, the sensitive west bank zone has returned to nearly normal activity, although security precautions remain in force throughout the country. Cairo radio has predicted General Shihab will name rebel leader Karame as prime minister. Libya is reported to have been offered Soviet aid. The Sudan is engaged in trade talks with Communist China, and Cairo has resumed press attacks on the Khalil government regarding the Nile waters dispute.

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**PART II****NOTES AND COMMENTS****USSR'S SEVEN-YEAR PLAN . . . . . Page 1**

The USSR's Seven-Year Plan (1959-1965) will apparently be released soon. Public handling of the announcement of the plan details will be intended to impress the world by contrasting the high rate of Soviet growth with that of the United States. The plan will probably reflect an increasingly optimistic view of the rapidity with which the Soviet economy can overtake the United States in industrial production. Preliminary information indicates that growth rates will be higher than necessary to conform to Khrushchev's 15-year forecasts of last November. [REDACTED]

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**USSR AGREES TO NUCLEAR TEST SUSPENSION TALKS . . . . . Page 2**

Premier Khrushchev, in accepting the 31 October date set by the West for talks on nuclear test suspension, warned that the USSR might be forced to resume testing if the United States and Great Britain continue their testing. This action was designed to reap further propaganda gains from the issue and to strengthen the Soviet bargaining position at the forthcoming talks. [REDACTED]

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**YUGOSLAV - SOVIET BLOC TRADE RELATIONS . . . . . Page 3**

Moscow is continuing its economic harassment of Belgrade by refusing to send wheat under their existing trade agreement. A complete Soviet bloc economic boycott of Yugoslavia is unlikely, however, since such a course failed in 1948. For the present at least, Moscow apparently prefers to exert pressure on Belgrade in other ways, such as sending goods of inferior quality and delaying deliveries. [REDACTED]

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**CHINESE COMMUNIST PRESSURE ON HONG KONG . . . . . Page 4**

Recent Chinese Communist economic and political pressures against Hong Kong have increased doubts among colonial officials and informed private circles regarding the colony's long-range prospects. By threatening Hong Kong, Peiping may hope to discourage London from supporting American policy in regard to Taiwan, and eventually to reduce Hong Kong to a political and economic satellite of the mainland. [REDACTED]

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****4 September 1958****PART II (continued)****CYPRUS . . . . . Page 5**

The tempo of violence has again quickened on Cyprus and EOKA's one-month-old "truce" may be over. All Greek Cypriots continue to support Makarios in his denunciation of the British plan for Cyprus. Turkey has agreed to cooperate in attempting implementation of the new plan; but without Greek-Cypriot cooperation, the attempt will probably fail. [REDACTED]

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**BRITISH-ICELANDIC FISHERIES DISPUTE . . . . . Page 5**

The British-Icelandic fisheries dispute entered a new phase on 1 September when Icelanders boarded--and then were driven from--a British trawler in an effort to enforce a 12-mile territorial limit. The danger of serious incidents is increasing. With new compromise efforts being made in NATO, there is a possibility that Icelandic hostility toward Britain might shift to NATO itself. [REDACTED]

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**OUTLOOK FOR FINLAND'S NEW GOVERNMENT . . . . . Page 6**

The Finnish Government formed on 29 August by moderate Social Democrat K. A. Fagerholm represents all parties except the opposition Social Democrats and the Communist-front Finnish People's Democratic League (SKDL), which emerged from the 6-7 July elections as the country's largest single party. Some of the new cabinet's parliamentary support is halfhearted, however, and the government faces difficult economic problems which may result in its overthrow this winter. [REDACTED]

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25X1**MEXICAN LABOR TROUBLES . . . . . Page 8**

Last week's labor and student riots in Mexico City were probably brought about by dissident, leftist labor leaders who are determined to gain stronger influence

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**PART II (continued)**

in the governing Party of Revolutionary Institutions (PRI). The power already acquired in important unions by these leaders may force President-elect Lopez Mateos to give some weight to their views in his program when he takes office on 1 December. [REDACTED]

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**PARAGUAYAN UNREST . . . . . Page 9**

President Stroessner's dictatorship is faced with a new threat to stability, having overcome plotting just prior to its second inauguration on 15 August. The regime fears that political repercussions from a general strike suppressed on 27 August may be exploited by subversive elements and hamper its recent steps to liberalize political conditions. Stroessner has strong military support, but each crisis offers an opportunity to disgruntled key commanders to make a bid for power. [REDACTED]

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**PRE-ELECTION ASSEMBLY SESSIONS IN PAKISTAN . . . . . Page 10**

The tenor of the recently concluded West Pakistan provincial assembly session and the present National Assembly session, together with the nature of the efforts being made to strengthen the Awami League government of East Pakistan, suggests that all three governments will be able to remain in power until national elections are held in February. Stability depends, however, on the Awami League's ability to prevent the alienation of support of important individuals in the national government. [REDACTED]

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**INDIAN FINANCE MINISTER'S VISIT TO THE UNITED STATES . . . Page 10**

Indian Finance Minister Desai is expected to emphasize India's need for long-term financial assistance during his Washington visit beginning 6 September. India recently secured \$350,000,000 for its short-term needs from Britain, the United States, West Germany, Japan, Canada, and the International Bank for Reconstruction and Development. Desai is one of the leading candidates to succeed Nehru as prime minister, and this is his first trip outside India. [REDACTED]

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**HANOI ATTEMPTS TO REFORM EDUCATION . . . . . Page 11**

North Vietnam has announced a three-year plan for education to be inaugurated at the beginning of the coming academic year, and propaganda media are discussing ways to reorganize the private schools and re-educate secondary-school teachers. Newspaper articles have criticized teachers' attitudes and political concepts, equating them with those expressed by dissident writers and professors earlier this year. Hanoi probably intends eventually

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### PART II (continued)

to abolish the private schools, which generally have a higher academic standard than their public counterparts, and is taking some half measures toward that end.

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#### COMMUNIST SUBVERSIVE GAINS IN LAOS . . . . . Page 12

The Communist-dominated Neo Lao Hak Zat (NLHZ) is extending its influence throughout Laos. NLHZ campaigns to penetrate the army and control local administrations in the provinces are meeting considerable success. Pro-NLHZ sentiment is spreading among the minority tribes, which constitute about half the population, and among the influential Buddhist clergy.

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#### KENYA SECRET SOCIETY CAUSING POLICE GROWING CONCERN . . . Page 13

The Kiama Kia Muingi (KKM)--an African secret society in Kenya which is a direct outgrowth of the Mau Mau--has mushroomed into an organization of perhaps 200,000 members. The society aims at independence for this British crown colony and plans eventually to use violence to oust the 60,000 Europeans.

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### PART III

#### PATTERNS AND PERSPECTIVES

#### COMMUNIST CHINA'S "GIANT LEAP FORWARD" . . . . . Page 1

The Chinese Communist leaders are firmly committed to their campaign for maximum speed in economic development--which Peiping describes as its "giant leap forward." They express elation with the results of the campaign in the first half of the year. More attention is being paid to agriculture, large numbers of small industrial plants are being built, and some responsibility for financial, industrial, and commercial management has been passed from Peiping to lower administrative levels in expectation that this would increase efficiency. These important modifications have been made in China's economic programs to avoid repetition of the raw material shortages, transportation tie-ups, and financial difficulties which followed the relatively modest economic speed-up in 1956 and which hampered the economy through much of 1957. However, there are signs that some of the troubles of 1956 have begun to reappear.

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****4 September 1958****PART III (continued)****JAPANESE-AMERICAN RELATIONS . . . . . Page 6**

During his visit to Washington on 11 and 12 September, Japanese Foreign Minister Aichihiro Fujiyama intends to discuss problems connected with revision of the US-Japanese security treaty, ways to increase Japanese exports to the United States, economic assistance for Southeast Asia, and relations with Communist China. Prime Minister Kishi believes the visit will be the key to long-term cooperation and that it will counter charges that Tokyo is subservient to the United States on issues affecting Japanese interests. [REDACTED]

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**THE COMMONWEALTH ECONOMIC CONFERENCE . . . . . Page 9**

The Commonwealth Economic Conference opening at Montreal on 15 September--the first such full-scale meeting since 1952--is likely to show a somewhat diminished role for Britain and a growing divergence between the older and newer Commonwealth countries as to the means of overcoming their economic problems. Older members such as Canada and Australia are concerned primarily about the inadequacy of monetary reserves, while the newer, less developed members like India and Ghana insist that the immediate problem is the need for stabilizing prices of raw materials. Britain is interested in further exploring Commonwealth attitudes toward the United Kingdom's membership in the projected European free trade area. [REDACTED]

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**LATIN AMERICAN INTEREST IN A COMMON MARKET . . . . . Page 12**

Latin American exploratory discussions of a "common market" stem primarily from a desire for accelerated industrialization. Political conditions and trade patterns in Latin America are less favorable than in Western Europe and integration of the economy. Growing interest in a common market may, however, foster economic cooperation among Latin American countries and some liberalization of trade and payments. [REDACTED]

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**PART I****OF IMMEDIATE INTEREST****TAIWAN STRAIT SITUATION**

Periodic bombardment of the Kinmens by the Chinese Communists continued during the past week but declined in intensity during the first days of September. Temporarily, at least, Communist shore artillery has combined with motor torpedo boats in attempts to interdict the supply lines to the Kinmens. Supplies still are reaching the Kinmens, but in sharply reduced volume.

Chinese Nationalist military officials admit that these interdiction efforts have been partly successful. Aircraft are encountering artillery fire immediately on nearing the Kinmen airstrip, and apparently only one per day landed from 29 August to 4 September. Only two of ten LCM's based at Kinmen remain in operation, reducing Nationalist ability to off-load shipping in Liaolo Bay.

The supply situation of Big and Little Kinmen is not yet critical. The islands have at least a 30-day supply of food and possibly considerably more. Thus far, supply dumps have not been seriously damaged by artillery fire, and roads throughout the island complex are passable. Few, if any, supplies have reached the lesser islands--Tatan, Erhtan, and Hutzu--and heavy artillery fire has severely damaged many of their shelters and installations.

The Nationalists have not yet made an all-out effort to resupply the Kinmens. Destroyers have not been used against Communist torpedo boats, and counterbattery fire has not

been fully employed against the Communist guns on the Weitou Peninsula from which fire is directed against the Kinmen airfield and nearby landing beach.

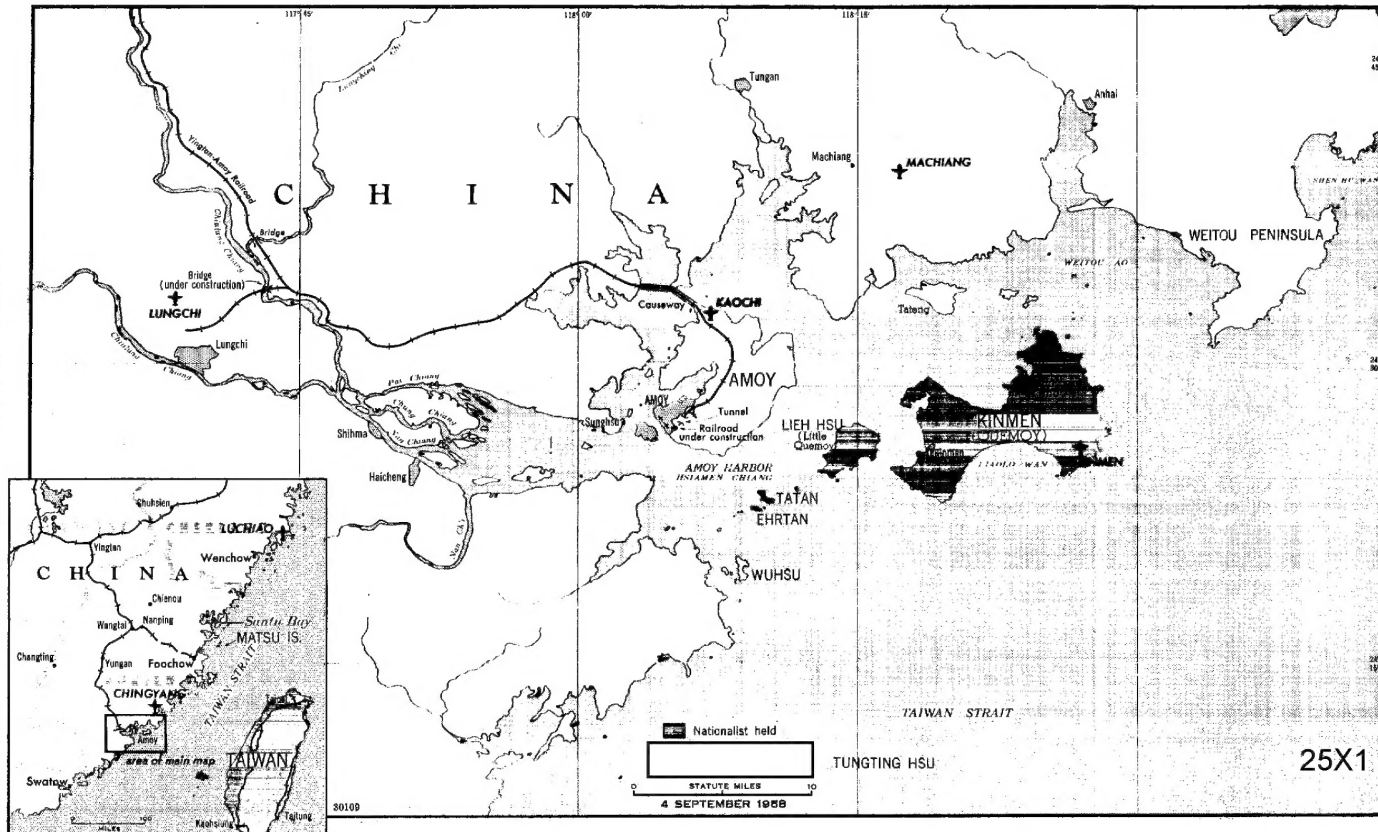
Air activity in the Taiwan Strait area declined during the period; no air clashes were reported by the Nationalists, who said, however, that Communist aircraft were active north of the Matsus on 2 September. 25X1  
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the Communists may have withdrawn or grounded some of their planes for retraining, for defensive reasons, or because of the adverse weather.

There continue to be indications that a Communist naval force gradually has been assembling in the Santu Bay area for the past month. 25X1

The Nationalists have reported successes in engagements with the Communist Navy. During the early morning hours on 1 September, batteries on Kinmen fired on a Communist flotilla and claimed three gunboats

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and eight motorized junks sunk and five gunboats damaged. The following morning a Nationalist landing craft and two escort patrol craft were attacked by motor torpedo boats south of Kinmen. Taipei reports that six of the Communist craft were sunk and six others damaged,

One of the Nationalist patrol craft was torpedoed but was towed to safety.

Communist ground force strength in the Fukien area has been augmented by two additional armies, making a total of four there. This means that troop strength has been increased by 92,000 to a total of about 280,000.

Peiping issued an official declaration on 4 September that

its territorial waters extend 12 miles from a base line drawn to include all coastal islands, indirectly warning the United States against escort activities on behalf of the Chinese Nationalists.

Peiping broadcast repeated defection appeals from the Fukien Front Command to senior officers of the Kinmen garrison from 28 August to 1 September, when the broadcasts ceased.

Peiping newspapers, which previously had reported only scant details to its domestic audience on the strait situation, on 31 August headlined American "interference" in China's internal affairs and declared that such intervention cannot prevent seizure of the off-shore islands. The newspaper

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commentaries appear further to commit the regime publicly to action against the islands.

The Chinese Communists are using the 31 August Pravda statement to imply a Soviet commitment to become militarily involved in the event of US involvement.

Pravda's warning on 31 August that the USSR will give the Chinese People's Republic the "necessary moral and material help in its just struggle" goes well beyond Soviet statements during the 1954 Taiwan Strait crisis, but the article stopped short of committing the USSR to military action in the event of an outbreak involving American forces.

Moscow's immediate aims probably are to discourage American military counteraction in the event of a Chinese Communist attack on Nationalist-held territory and to arouse world-wide apprehension over the possibility of large-scale hostilities.

An Izvestia article, distributed by Moscow TASS to Europe on 3 September, contained Moscow's first reference to the Sino-Soviet alliance, but without citing any details of Soviet obligations under the treaty. It said: "The Soviet Union, tied to the Chinese People's Republic by bonds of their inviolable fraternal alliances, fully supports this just struggle. This should never be forgotten by the US imperialists, whose brink-of-war policy has

led to a series of complete failures."

**World Reactions**

Official and press opinion in a number of European and Asian countries is that Communist China is engaged in a political maneuver to demonstrate its strength and importance and that it is not prepared to risk World War III. There is no significant body of comment, except from countries closely associated with the Sino-Soviet bloc, that assumes the United States would risk World War III to ensure Taiwan's continued control of the offshore islands. Very little sympathy is expressed for Taiwan's claim to the islands, and, except in South Korea and South Vietnam, free-world opinion does not support the concept of an American defense of the islands.

Heavy British press comment points to serious difficulties for the Macmillan government should the United States become involved in the hostilities. Many papers have editorially attacked America's China policy, and the government publicly continues to regard the offshore islands as Chinese Communist territory.

The Japanese Government likewise feels that it will be in a difficult position if the United States intervenes militarily, and in this event would probably not take a position helpful to the United States.

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**MIDDLE EAST DEVELOPMENTS**Jordan

The air of expectancy which has pervaded Jordan for the past six weeks has dissipated somewhat as a result of the continued presence of British troops and the absence of serious rioting or coup attempts. While stringent security measures remain in force throughout the country, the population of West Jordan is reported to have returned to normal activity, and the refugee camps, always a potential source of disorder, appear to have relapsed into their usual apathy. The economic situation, which two weeks ago seemed extremely dangerous, has improved with the partial opening of traffic routes to Syria and Lebanon and with increased supplies of petroleum products.

Lebanon

Divisions within the Lebanese rebel leadership have come increasingly into the open as the rebels remain uncertain of their future strategy and tactics. A number of rebel leaders want a return to normal conditions and a gradual end of the rebel-maintained strike so that the transition from Chamoun to Shihab can be eased. Others, however, feel that the fruits of the "revolution" are within easy reach if some slight additional effort is made and that compromise in the traditional Lebanese manner is unnecessary. The most serious incident of bickering among the factions this week was the seizure of one faction's radio transmitter, located in the Basta quarter of Beirut, by a band of adherents of another rebel group. The less extreme group of rebel leaders appears at the moment to have the upper hand.

Cairo radio has predicted that General Shihab will ask Tripoli rebel leader Rashid Karame to be prime minister. Shihab himself has said he contemplates attempting to rule for at least six months with "emergency powers." During this period Parliament would be in abeyance, and the cabinet would be composed of relatively little-known moderates. Rebel pressure makes it doubtful that Shihab will feel strong enough to carry out such a program. Parliament is scheduled to reconvene on 21 October, and the rebels almost certainly will press for new elections.

Iraq

The specifically anti-American tone of the press and radio, as well as a hostile public attitude toward Westerners, continues in Baghdad. This is complemented by vigorous activity by the newly re-established Soviet Embassy. 25X1

the Iraqis are negotiating for "financial assistance" --probably financial advice rather than money--with the USSR as well as with the UAR. 25X1

A disruptive element apparently will return to Iraq, since the government has given permission for Mustafa Barzani, dissident Kurdish nationalist leader, to come back from his long refuge in the Soviet Union. Baghdad radio broadcast an alleged letter from Barzani to the government asking it to intercede with Soviet bloc authorities to permit him to come home. His presence in Iraq is likely to create concern in Turkey and Iran, which have significant Kurdish minorities in areas near the Soviet border.

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Libya has received a broad offer of economic aid from the USSR. While Libyan Prime Minister Kubaar, already nervous about Egyptian influence, fears that acceptance of a Soviet offer would lead to an influx of Soviet technicians, he seems equally, if not more, fearful that rejection of the offer would be used to strengthen pro-Egyptian elements who claim the government is dominated by the West. The offer includes financing and equipment and assistance for petroleum exploration; finding oil in commercial quantities is Libya's one hope of developing a viable economy to support even the present modest bureaucracy and royal household.

Although never officially acknowledged by Libya, a Soviet offer of two hospitals submitted in 1957 is apparently to be implemented, the facilities to be built and probably staffed by the USSR, possibly on the pattern of the long-established Soviet hospital in Ethiopia.

**Sudan-UAR**

Khartoum and Cairo have resumed their long exchange of verbal blows over the future distribution of the Nile waters. The Cairo press last week vigor-

ously attacked Prime Minister Khalil's government for its refusal to abide by the 1929 Nile waters agreement and for its unilateral decision to begin withholding water in connection with its Sennar Dam project.

The Nile waters question was not a good one from the point of view of UAR propaganda, since Khalil enjoys popular Sudanese support on this question. The Sudanese prime minister is more vulnerable on such issues as his approval of the landing of American troops in Lebanon, and if Cairo makes an all-out attack on him, it would probably use this kind of material.

Meanwhile the Sudan's cotton disposal problems are again pressing the government. Trade talks with the Chinese Communists are under way; although Khalil has resisted an arrangement with Peiping, the pressure of the surplus may lead him to weaken, especially if his domestic political position should deteriorate further.

**Israel**

The Israeli Army apparently remains on a "second-phase" alert which has been in force since the Iraqi coup. The present series of military maneuvers in Israel is scheduled to end on 6 September.

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## PART II

NOTES AND COMMENTS

## USSR'S SEVEN-YEAR PLAN

The USSR's Seven-Year Plan (1959-1965) will apparently be released soon. Public handling of the announcement of the plan details will be intended to impress the world by contrasting the high rate of Soviet growth with that of the United States. The plan will also apparently reflect an increasingly optimistic view of the rapidity with which the Soviet economy can overtake the United States in industrial production.

The draft of the plan was completed on 22 August, according to an official announcement, seven weeks behind schedule. Khrushchev had turned the plan back to the State Planning Commission three times for correction. He reportedly was dissatisfied particularly with the plans for the chemical and cement industries. Pravda reported on 27 August that the draft has been discussed at a meeting of the Economic Committee of the Supreme Soviet's Council of Nationalities, and it presumably will be taken up within the next few weeks at a Supreme Soviet meeting. Various reports have indicated that such a meeting will take place during September.

It appears that a brief conservative period in Soviet economic planning, seen in Khrushchev's 15-year forecasts and in the annual plans for 1957 and 1958 which scheduled annual industrial growth rates of only 7 percent, has terminated. The Soviet press re-

lease which stated that the plan had been completed implied that it was designed to advance all branches of the economy "so as to solve the main economic task of catching up with and surpassing the most developed capitalist countries in per capita production of industrial goods." In another statement, a member of the USSR Academy of Sciences wrote in Pravda on 9 July that Soviet industrial output will grow at a rate of not less than 10 percent annually, and that the USSR will catch up with present US industrial output in another seven or eight years. The 10-percent growth figure was also given by Gosplan officials to a group of French economists visiting Moscow.

These statements, taken together with plan targets already disclosed, indicate that production goals will be higher than would have been necessary to conform with Khrushchev's 15-year forecasts given last November. In the case of steel, for example, targets for 1965 appear to be 80-90,000,000 metric tons as compared with 100-120,000,000 tons set by Khrushchev to be accomplished in 15 years, i.e., by 1972. At the time he announced the 15-year goals, Khrushchev said his targets would be subject to change by experience, probably in the direction of shortening the time periods required, and he recently stated in a speech at Kuybyshev that the USSR must gain 10 to 15 years in its economic race with the West.

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## USSR AGREES TO NUCLEAR TEST SUSPENSION TALKS

Soviet Premier Khrushchev, in agreeing to talks on 31 October on suspension of nuclear weapons tests, warned that continued American and British testing may force the USSR to resume tests. This threat may have been designed to strengthen the Soviet bargaining position at the talks. His statement, contained in the 29 August Pravda interview, was timed to coincide with publication of the Geneva technical talks report.

The Soviet premier rejected the Anglo-American "conditions" for renewing the suspension on a yearly basis. He called instead for a ban "for all time," with negotiations to be completed "within two or three weeks."

Khrushchev recalled the Supreme Soviet decision of 31 March 1958 which stated that the USSR would be free to resume tests if the Western nuclear powers failed to follow the Soviet lead in suspending them. Although Khrushchev declared that the continuation of American and British tests "relieves the Soviet Union of the obligation it had assumed unilaterally," a resumption of tests at this time would seriously weaken Moscow's propaganda position in view of the repeated charges of American and British insincerity regarding a test suspension. In the Soviet appraisal, however, the security implications of continued US-UK nuclear progress could outweigh the negative aspects of test resumption prior to the 31 October meeting.

The 29 August Pravda statement regarding possible resumption of Soviet testing was appended to notes sent by Moscow to the United States and Britain the next day. This unusual procedure and the pessimistic tone of Khrushchev's remarks are calculated to demonstrate growing Soviet impatience and indignation over the West's "delaying tactics."

At the same time, Moscow has been promoting its "peaceful approach" to nuclear energy problems at the second International Conference on the Peaceful Uses of Atomic Energy at Geneva. Khrushchev's message to the conference claimed that, had agreement to prohibit nuclear weapons been achieved, cooperation on the utilization of nuclear materials for peaceful purposes would have been much further advanced.

On 30 August the Soviet Union also followed the American and British action of declassifying details of research on the controlled release of nuclear energy from the fusion process. According to press statements, Western scientists attending the meeting are considerably impressed with the Soviet research made public thus far. An attempt to take advantage of the discussions on peaceful uses to further the Soviet campaign for a permanent ban on nuclear tests came during the 3 September conference session when the head of the Soviet delegation attacked, as a political device designed to conceal American desire to continue nuclear weapons tests, the American suggestion that nuclear explosives could be used for peaceful purposes. [REDACTED]  
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**YUGOSLAV - SOVIET BLOC TRADE RELATIONS**

Recent Soviet stalling on the agreement to sell 200,000 tons of wheat to Belgrade in 1958--the first confirmed attempt at harassment through normal trade channels--follows economic pressures initiated by the USSR last May with its five-year "postponement" of \$285,000,000 in credits to Yugoslavia. Belgrade, although now less vulnerable to bloc economic sanctions than in 1948, when 50 percent of its trade was with the bloc, has become increasingly involved in recent years, and in 1958 scheduled bloc trade is roughly 35 percent of total Yugoslav foreign trade.

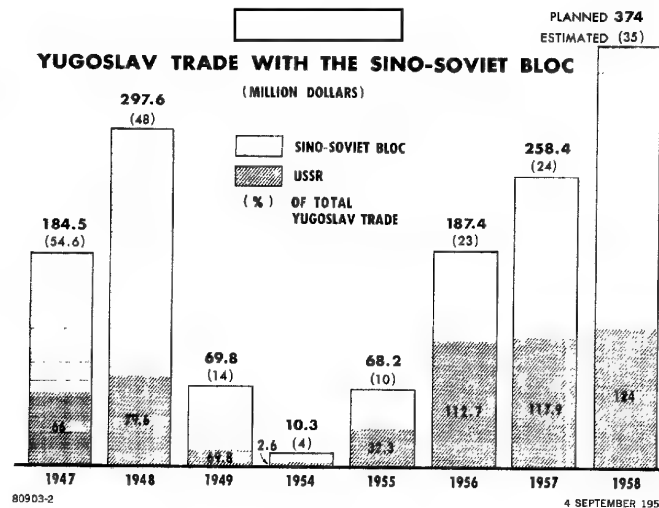
satisfactorily during the first half of 1958. The first public indication of a deliberate slowdown appeared in Belgrade's Borba on 24 August, which stated that the USSR has refused to deliver the 200,000 tons of wheat provided for in the Yugoslav-Soviet trade accord. Borba charged that in addition to wheat, Moscow has been remiss regarding other goods deliveries.

The Soviet refusal is apparently intended primarily as a political move and does not stem from any inability to furnish the grain. Last month, Moscow agreed to ship 200,000

It is unlikely that a complete break in economic relations will occur. Trade with the bloc, especially with the more industrialized European satellites, is mutually advantageous, and both Poland and East Germany recently increased their trade goals with Yugoslavia.

Since the USSR is no longer willing to trade "machinery for prunes," however, bloc trade arrangements less advantageous to Yugoslavia are expected. Moscow's intentions will be clarified this fall and winter when present trade agreements would normally be renegotiated. Moscow probably hesitates to impose a total economic blockade on Yugoslavia, both because of the failure of such a campaign after the 1948 break and because of adverse repercussions such a move might have on relations with the uncommitted countries of Asia and Africa.

Except for minor irritations, Yugoslav trade with the bloc appeared to be moving



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tons of wheat to Egypt sometime this year from the bumper crop now being harvested and has offered Black Sea wheat to Japan.

Loss of Soviet wheat at this time is especially annoying to Yugoslavia since its 1958 wheat crop is smaller than last year's record harvest. The 200,000 tons, worth roughly \$12,000,000, could be purchased elsewhere, but the perennial Yugoslav shortage of hard currency has been exacerbated by the Soviet cancellation of credits in May.

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Withholding shipments of coking coal, anthracite or petroleum, which account for 50 percent of total Yugoslav imports from the USSR, would deal a far more serious blow to the Yugoslav economy than withholding wheat. So far, however, no specific complaints have been made public regarding these commodities. Yugoslav wheat imports from the USSR represent only about 15 percent of total wheat imports.

Yugoslavia may try to orient its trade more to the West and increase its efforts to find markets in the Middle East, Asia, and Africa. The Yugoslav Government has already announced that an economic delegation will go to Iraq this month, at which time it will probably sign its first trade agreement with that country. [REDACTED]  
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**CHINESE COMMUNIST PRESSURE ON HONG KONG**

Recent Chinese Communist economic and political pressures against Hong Kong have increased doubts among officials and informed private circles there regarding the colony's long-range prospects. This attitude contrasts sharply with the previous confidence that the colony's future was secure because of its value to Peiping as a major source of free-world hard currency.

Chinese Communist light manufactures and textiles, allegedly "dumped" on the Southeast Asian and Hong Kong markets, reportedly are beginning to undersell Hong Kong products. In the opinion of the Hong Kong authorities, local industry has not yet been hard hit, but the competition is assuming serious proportions and is likely to grow. While they believe the greatest danger is to the colony's overseas markets, they also are concerned over Chinese Communist efforts to monopolize control of the colony's food supply.

Hong Kong's fishing operations have recently been brought to a near standstill as the result of Communist seizures of fishing boats and the imposition of heavy fines and confiscation of catches for failure of the fishermen to join mainland cooperatives. The Hong

Kong government is considering naval protection for local fishermen operating in international waters, and the Royal Navy is providing daily escort for fishing boats to the "outer reaches" of the colony's waters. Local officials, however, have expressed the view that most of the Hong Kong fishermen will eventually be forced to join the Communist cooperatives.

An increasing volume of propaganda and official protests have emphasized Peiping's adamant opposition to the "sheltering" of Chinese Nationalist "agents" and its claim to be the champion of the "rights" of the Hong Kong Chinese. The Communists have strongly attacked efforts by the colonial authorities to curb Communist subversion in the local schools.

While Peiping probably wants to increase foreign exchange earnings through its trade, its tactics also appear to be in line with Peiping's long-standing policy of gradually eroding the Hong Kong government's authority and prestige through threats, political pressure, and constant agitation. By threatening Hong Kong, Peiping also may hope to discourage the British from supporting American policy in regard to Taiwan. [REDACTED] (Concurred in by ORR)

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**CYPRUS**

The tempo of violence has again quickened on Cyprus with four Greek Cypriots and two British servicemen being killed on 2 September--the largest number of deaths during a single day in Cypriot-British fighting since the end of large-scale EOKA attacks in March 1957. In June, EOKA leader Grivas warned that a Briton would die for every Cypriot killed by the security forces.

In announcing a truce on 4 August, Grivas reserved the right to renew operations if "provocations" continued, and the recent security operations may be considered sufficient provocation. EOKA will be reluctant, however, to launch simultaneous attacks on the Turkish community and thus face a "war" on two fronts.

Despite continued violence between right- and left-wing Greek Cypriots, all members of the community continue, in the fight for self-determination, to manifest loyalty to Archbishop Makarios who, on 28 August, caustically denounced the British and their new plan for Cyprus. Makarios has again called for UN intervention to

"restore peace" on the island. Evidence is accumulating that both Makarios and the Greek Government are about to mount a new campaign for a UN trusteeship for Cyprus. Meanwhile there are indications that EOKA leader Grivas is increasingly dissatisfied with the "indecisive" leadership of Makarios and the government of Greece, thus lessening their potential capability for restraining EOKA violence.

Turkey's willingness to cooperate with Britain in implementing the new plan for Cyprus limits London's ability to make further concessions to secure Greek acceptance. While Britain, with Turkish cooperation, may attempt to impose its plan, it is unlikely to be successful in the face of massive Greek-Cypriot opposition.

Until the exiled Makarios is permitted to return to Cyprus, the British apparently will have to continue to rule the island by force. While his return would not guarantee peace, it probably would restrain the extremists, whose acts could otherwise lead to his deportation again.

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**BRITISH-ICELANDIC FISHERIES DISPUTE**

The British-Icelandic fisheries dispute entered a new phase on 1 September when Icelandic coastguardsmen boarded a British trawler within the new 12-mile territorial limit. They were forcibly removed by a British frigate, and the Icelandic patrol boat has refused to take them back. The danger of serious incidents is increasing.

Neither the British nor the Icelanders appear willing to compromise their respective positions in principle. British willingness to refrain from protecting British trawlers in the inner six miles foundered on Iceland's unwillingness to refrain from arresting British fishermen outside the original four-mile limit. The Icelandic cabinet, which is under strong

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pressure from its Communist members, is standing firm, and public opinion is inflamed, with a crowd of some 400 breaking windows at the British Embassy on 2 September.

Denmark has proposed a ministerial meeting of the eight countries whose fisheries experts failed to reach a compromise on 29 August, and NATO officials are seeking to find a modus vivendi which will avert the threat to the alliance.

While not sanguine, the British have accepted the suggestion in order to keep the question fluid. The Icelandic Government would, however, be reluctant to participate in

any meeting which would not recognize Iceland's unilateral extension of territorial waters to the 12-mile limit. It seems more likely that Iceland may demand that the NAC consider British "aggression" against Iceland, and also raise the subject at the meeting of the UN General Assembly later this month.

There is a possibility that the hostility felt toward the British could easily be shifted against NATO itself and against its US-manned bases in Iceland, if the inflammable and chauvinist public feels NATO is on the side of the British.

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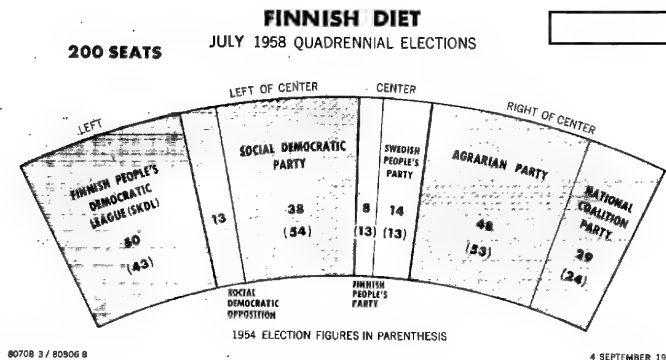
## OUTLOOK FOR FINLAND'S NEW GOVERNMENT

The Finnish Government formed on 29 August by moderate Social Democrat K. A. Fagerholm represents all parties except the opposition Social Democrats and the Communist-front Finnish People's Democratic League (SKDL), which emerged from the 6-7 July elections as the country's largest single party. Some of the new cabinet's parliamentary support is halfhearted, however, and the government faces difficult economic problems which may result in its overthrow this winter.

governmental expenses in order to avoid the recurrent cash shortages of recent years adds to the difficulty of handling the problem of unemployment.

A Finnish delegation has come to Washington stressing the urgency of Finland's request for a \$30,000,000 loan from the United States. Finland is also requesting \$25,000,000 from the IRBD. If these loans for economic development projects do not materialize, there will be strong

The government in particular will have to cope with the problem of unemployment; a post-war high is expected to be reached this winter. About 16,000 were unemployed on 15 August, compared with 3,000 the previous year. The need to curtail



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pressure from leftist elements in Finland for the government to accept more than a token amount of the economic assistance which the USSR offered during President Kekkonen's state visit to Moscow last May.

The Fagerholm cabinet, which replaces the nonpolitical caretaker governments in power since November 1957, is by no means as strong as its formal parliamentary majority would suggest. The Finnish Confederation of Trade Unions (SAK) is not represented in the cabinet and is hostile toward its former secretary general, Olavi

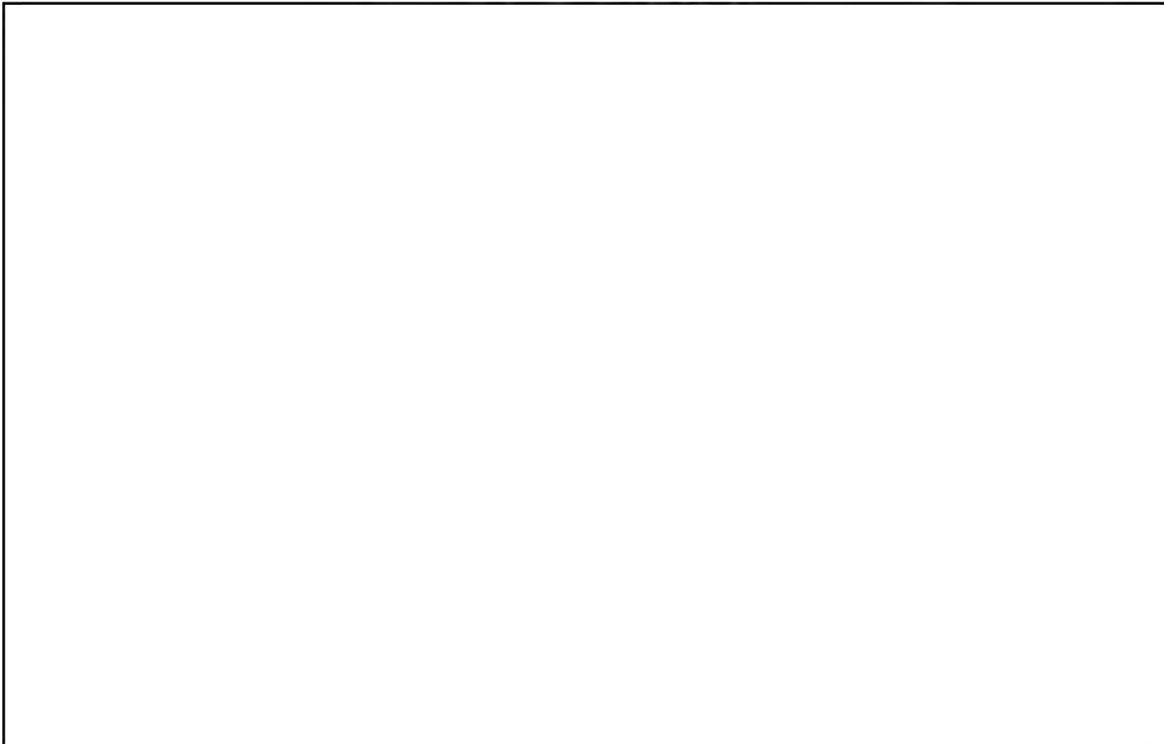
Lindblom, who is in the cabinet as a labor representative. The Agrarians entered the coalition only reluctantly; and their radical wing, unrepresented except for Foreign Minister Virolainen, seems to anticipate that the government will fall soon.

Within both the Agrarian party and the SAK, a considerable element regards Communist participation in some form as inevitable. The fall of the government on the unemployment issue could lead to the formation of a regime including Communists, or to a minority government dependent on Communist support.

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**MEXICAN LABOR TROUBLES**

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Last week's labor and student riots in Mexico City were probably brought about by dissident, leftist labor leaders who are determined to gain stronger influence in the governing Party of Revolutionary Institutions (PRI). The power already acquired in important unions by these leaders may force President-elect Lopez Mateos to give some weight to their views in his program when he takes office on 1 December.

President Ruiz Cortines did not act decisively against the rioters, and his reluctance earlier this year to deal firmly with serious wildcat strikes has given the initiative to the men challenging the established PRI union leaders.



Control of the labor movement has been an important factor in the long, almost unchallenged rule of the PRI. Workers, however, hit by inflation and low wages, complain that their politically motivated union heads have failed to obtain for them a fair share in Mexico's rapid economic growth. The dissident leaders exploited this dissatisfaction, staging strikes which paralyzed schools, railroads, and other communications; the government capitulated to most of their demands. Politically active students, who started last week's outbreak by demonstrating against a minor bus fare increase, accepted offers of assistance from the

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leftists. The President also acceded to the student demands.

Many of the newly powerful leaders are Marxists, although they do not belong openly to

Mexico's legal Communist party. Lopez Mateos, who was a strong minister of labor in the outgoing administration, will probably try to channel their demands into a program patterned on Mexico's own socio-economic revolution of 1910.

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**PARAGUAYAN UNREST**

President Stroessner's dictatorship is faced with a new threat to stability, having overcome plotting just prior to its second inauguration on 15 August. It fears that political repercussions from a general strike suppressed on 27 August may be exploited by subversive elements and hamper its recent steps to liberalize political conditions. Public sentiment strongly favors labor's efforts to improve its substandard living conditions.

The government refused to concede to labor's demand for a 29-percent increase in minimum wages, citing its fear of inflation and damage to the year-old stabilization program drafted by the International Monetary Fund. Under this, living costs and the exchange rate have remained steady, and Paraguay agreed not to raise wages by more than 5 percent over the rise in living costs. Labor, however, appears unusually determined to attain its objective, and the General Confederation of Workers (CPT) rejected a pre-strike offer of 5 percent.

About half the workers returned to work immediately after the government's prompt repressive measures, including the arrest of labor leaders and seizure of the CPT. Some 700 workers took refuge in a Catholic school compound, where they were joined by Father Talavera, whose public attack

on the regime for failing to improve the welfare of the people attracted widespread approval last February. The workers, however, were persuaded to leave the school compound by the clergy after the government obtained a court order for their eviction. The Chamber of Deputies has taken the unprecedented action of protesting the temporary arrest of the CPT president.

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The foreign minister has stated privately that the strike is political rather than economic and is basically Communist-inspired, although other opposition parties have since taken advantage of the situation.

The major opposition Liberal party faces a dilemma regarding the strike, wanting to take advantage of it but not wanting to jeopardize its newly granted freedom for increased political activity. Exiled elements of both the Liberal and Febrerista parties, however, have consistently advocated resistance and revolution. The armed forces, backbone of the regime, strongly support President Stroessner and endorse his liberalization moves. Each crisis, however, offers an opportunity to any disgruntled key military commander to make a bid for power.

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**PRE-ELECTION ASSEMBLY SESSIONS IN PAKISTAN**

The tenor of the recently concluded West Pakistan provincial assembly session and the present National Assembly session, together with the nature of the efforts being made to strengthen the Awami League government of East Pakistan, suggests that all three governments will be able to remain in power until national elections are held in February. Stability depends, however, on the Awami League's ability to prevent the alienation of support of important individuals in the national government.

In the current National Assembly session, which began on 1 September, and in the West Pakistan provincial assembly session which concluded on 28 August, the opposition has concentrated on establishing campaign issues for the national elections rather than on efforts to overthrow the government. The opposition Moslem League and the National Awami party will probably continue to attack the government's policies, including its pro-Western foreign policy and its politically unpopular repression recently of would-be marchers on Indian-held Kashmir. Investigation of political corruption will probably also be demanded.

During the West Pakistan assembly session from 25 to 28 August, the Moslem League and

other opposition parties were unable to offer any serious threat to the Republican party government in that province. However, the situation in East Pakistan, where the Awami League government was restored on 26 August following a period of President's Rule, appears less stable. The outcome of the provincial assembly session expected to begin there about the third week in September is uncertain. The Awami League government apparently does not yet have a firm commitment of support from the National Awami party and is bargaining for support from its own principal rival, the Krishak Sramik party (KSP). At the same time, it has not filled about eight provincial cabinet posts, apparently using this to attract support away from the KSP, which has almost equal strength at present in the provincial assembly.

The Awami League, which previously has supported the national government from outside the national cabinet, is now also attempting to get a number of seats in the cabinet in order to increase its prestige and attract needed support in East Pakistan. If key leaders in the national cabinet are ousted and thereby alienated by this maneuver, however, serious instability in the national government could result.

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**INDIAN FINANCE MINISTER'S VISIT TO THE UNITED STATES**

Indian Finance Minister Morarji Desai, who left India late in August to seek financial aid from the United Kingdom, Canada, and the United States, is expected to emphasize India's need for long-term

financial assistance during his Washington visit beginning 6 September. India recently secured \$350,000,000 for its short-term needs from Britain, the United States, West Germany, Japan, Canada, and the

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International Bank for Reconstruction and Development, Desai is one of the leading candidates to succeed Nehru as prime minister, and this is his first trip outside India.



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DESAI

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**HANOI ATTEMPTS TO REFORM EDUCATION**

North Vietnam has announced a three-year plan for education to be inaugurated the beginning of the coming academic year, and propaganda media are discussing ways to reorganize the private schools and re-educate secondary-school teachers. Hanoi probably intends eventually to abolish the private schools and is taking some half measures toward that end.

The educational system which the Communists inherited from the French was inadequate, but it did support some excellent secondary schools staffed by Paris-educated instructors. The majority of these schools are private and enjoy a better reputation than public schools, as statistically their students have a better chance of gaining university admission--an anomaly

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in Communist states. The Communist regime has approximately doubled the number of students enrolled in academic high schools, now given at 13,000, but has not been able to maintain the quality of the French schools.

The private schools are permitted a certain degree of freedom, particularly in deciding whom they admit; and although they must teach the standard state curricula, few of the teachers are party members. Some of the schools are operated by the Catholic Church and still give religious instruction after school.

It is not clear why the Hanoi government has not nationalized at least the private high schools unless it has wished to avoid the expense of their operation. In the present discussions, these institutions are called on to improve their organization, increase their teachers' salaries, and raise the level of their political indoctrination work.

The state-operated schools in the provinces do not escape attack, which has been particularly sharp in recent weeks. The large Hung Vuong school in Phu Tho Province, with a student body comprising 10 percent of all academic secondary students, has been accused of neglecting the political indoctrination of its pupils. Even

teachers who are party members at Hung Vuong are quoted as saying they have no time to teach politics, and some are described as listening to nonbloc radio-broadcasts because they believed "intellectuals should hear both sides of a question."

The situation is described as being even worse in other public schools. The Lam Son school in Thanh Hoa Province reputedly harbors a group of teachers loyal to university professors fired last spring for demanding greater intellectual freedom. Students there have been told that "outmoded Communism will be replaced by a better doctrine"; and party cadres are compared to the boor in Moliere's Le Bourgeois Gentilhomme who wanted to be a gentleman while remaining illiterate. One teacher, when reprimanded, is said to have warned his director to "look out for another Hungarian uprising."

The regime opened a six-week political indoctrination course for all secondary-school teachers which was to end on 2 September. Until Hanoi has trained loyal new cadres, however, or unless it takes drastic steps against present instructors, the schools will continue to employ some teachers who oppose the system. To date the North Vietnamese intelligentsia has proved its ability to withstand regime efforts to eradicate dissent.

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## COMMUNIST SUBVERSIVE GAINS IN LAOS

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Although excluded from the newly formed national government, the Communist-dominated Neo Lao Hak Zat (NLHZ) is meeting success in its campaign to penetrate the army and to erode the government's authority in

the provinces.

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Communist elements in Laos have for years proselytized among the tribal minorities, which together comprise about half the total population. [REDACTED] 25X1

[REDACTED] NLHZ chief Souphannouvong has achieved considerable success in his pose as patron of the "suppressed minorities." To curry additional favor in the provinces, the NLHZ is planning to establish consumer co-operatives and river and land transport associations. 25X1

The NLHZ similarly appears to be making headway in its campaign to control the administrative machinery in rural areas, where locally elected officials are reported resigning under NLHZ pressure. The NLHZ is also winning substantial numbers of adherents among Laos' nearly 13,000 Buddhist monks, who have considerable influence over village opinion. This is, in part, the consequence of NLHZ leader Phoumi Vongvichit's tenure as minister of religion in the preceding government.

The over-all trend of growing Communist influence in almost every sector of Lao-tian society has been facilitated by the lack of effective government leadership. The NLHZ's energetic and well-planned efforts to marshal support in the provinces, looking toward the national elections next year, have been in marked contrast to the indifference and neglect of responsible government officials. [REDACTED] 25X1

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**KENYA SECRET SOCIETY CAUSING POLICE GROWING CONCERN**

The Kiami Kia Muingi (KKM)--an African secret society in Kenya which is a direct outgrowth of the Mau Mau--has mushroomed into an organization of perhaps 200,000 members. The society aims at independence for this British crown colony and plans to use violence to oust the 60,000 Europeans.

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[REDACTED] the society was officially outlawed in January 1958. [REDACTED]

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Conditions in Kenya favor the development of subversive nationalist movements because growing numbers of the 6,000,000 Africans have not been satisfied with the limited political and social reforms offered by the British and Kenya governments.

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## PART III

PATTERNS AND PERSPECTIVES

## COMMUNIST CHINA'S "GIANT LEAP FORWARD "

The Chinese Communist leaders are firmly committed to the current mass campaign for maximum speed in economic development--which Peiping describes as its "giant leap forward." They express elation with the results of the campaign in the first half of the year and say it will be continued. More attention is being paid to agriculture, large numbers of small industrial plants are being built, and some responsibility for financial, industrial, and commercial management has been passed from Peiping to lower administrative levels in expectation that this would increase efficiency.

These important modifications have been made in China's economic programs to avoid repetition of the troubles which followed the relatively modest economic speed-up in 1956 and which hampered the economy throughout much of 1957. However, there are signs that some of the troubles which beset Peiping in 1956 have begun to reappear.

Development of the Campaign

Liu Shao-chi, Mao's chief lieutenant and a leading exponent of the "leap forward" campaign, traces it to the launching of the "rectification" drive in the spring of 1957. Beginning in September 1957, various of Mao's lieutenants spoke publicly in favor of a more rapidly paced economic development, and the "leap" appears to have crystallized during December. In its early stages, it was marked by exhortations to overtake Great Britain in certain industrial fields in 15 years or so. Recent references claim the job can be done much sooner.

By the spring of 1958 the campaign had spread to all economic fronts. Little was said about its life expectancy, but by the time the party congress met in May, the leadership had apparently decided it would be a continuing feature of China's economy. Liu Shao-chi told the congress there would be "one forward leap after another." Tan Chen-lin, the party's leading spokesman on agriculture, said a "still greater forward leap can be expected in China's agricultural output next year and the year after."

Even as the "leap" was getting under way late last year, Liu Shao-chi noted that "some people" doubted the wisdom of such a course, and the official People's Daily perceived an "undercurrent" of "anxiety and worry." The opposition to the plan persists, and is pictured as hoping that the results at year's end will prove it right. Convinced that the program is "too impetuous," these elements cite the troubles brought on by the relatively modest acceleration of 1956. In that year, raw material shortages, transportation tie-ups, and financial difficulties hampered the economy through much of the following year.

Policy Reforms

The leadership argues that the 1956 setbacks were offset by the year's achievements and that policy changes made since that time will ensure against a recurrence. Peiping has acknowledged the pressing need above all to speed up agricultural development and, to this end, has sharply increased investments in money and manpower. Secondly, it has taken

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steps to shift to lower administrative levels a portion of the economic power which has become increasingly centered in Peiping.

Closely related to this is a program to build large numbers of small- and medium-size plants "like stars in the sky" throughout the countryside. As Liu Shao-chi observed, "It is only when all central and local authorities get going at it, only when there is a division of labor and cooperation among big, small, and medium-size enterprises, that we can achieve greater, faster, better, and more economical results."

The decision to make such reforms appears to have been made last fall, along with the decision to press ahead more rapidly. The decentralization of financial, industrial, and commercial activity can be traced to the third plenary session of the party's central committee last October. Chen Yun, believed to be a principal architect of the program, gave a report on this topic, the details of which have not been released. As a result of this meeting, Peiping made public in November a series of regulations which defined the decentralization process.

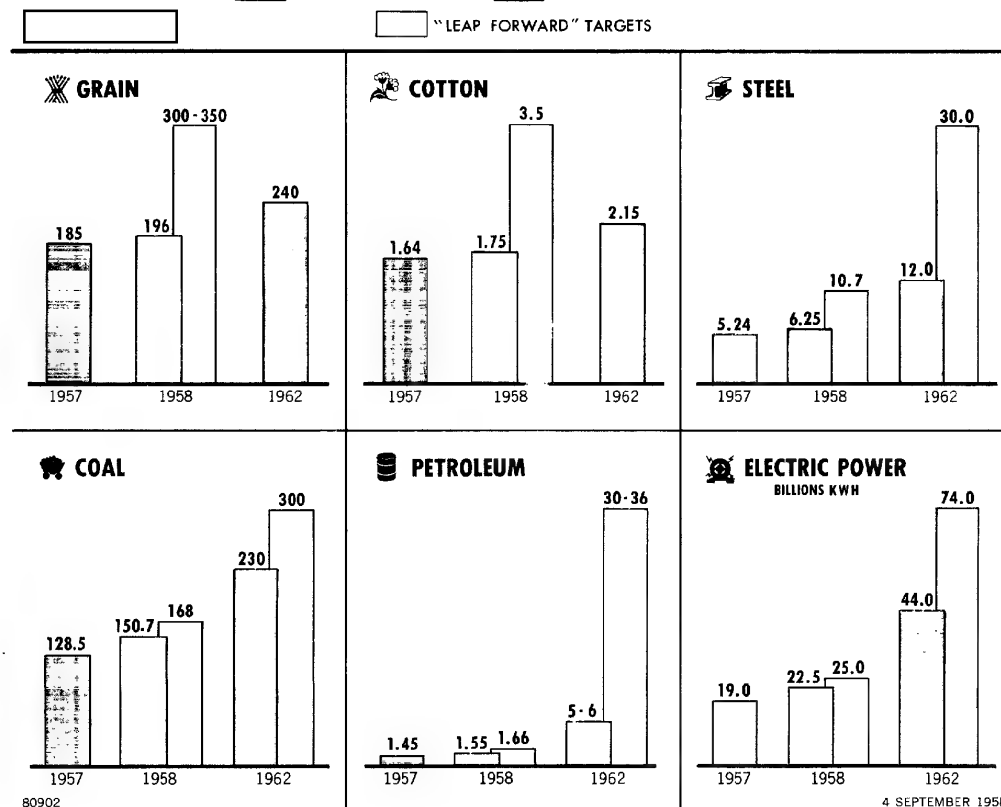
## PRODUCTION TARGETS IN COMMUNIST CHINA'S "GIANT LEAP FORWARD"

MILLION METRIC TONS

RESULTS

REGULAR PLANNING TARGETS

"LEAP FORWARD" TARGETS

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The decentralization and attendant programs featuring agriculture and small rural plants necessitated modifications in the planning mechanism. First of all, the process was simplified and the range of targets sent out from the center was narrowed. But of more importance was the launching of a new planning system, called by Peiping "a Chinese creation." Under it, the planning authorities in Peiping draft relatively reasonable goals which must be achieved. These become the central government's "first account" goals. They are then sent down to the provincial planning authorities, who, drawing on a more detailed and comprehensive knowledge of local resources, draft an "expanded" version of these goals.

The sum of all these expanded provincial plans becomes the central government's "second account" goals. It is to this account that targets publicized in connection with the "leap" refer. The same process occurs once again when the provincial authorities transmit their goals to the next lower level.

Small Plants

As a result of the program to build many small- and medium-size plants, China in effect has two industrialization programs proceeding side by side. The first and more important one involves the central government's key projects and continues at least at the pace achieved in the past. The second concerns the construction of small locally built and operated plants, lately grafted on to the first program.

These plants will serve to support agriculture by providing simple machinery, fuels and electric power to run the machines, and chemical fertilizer.

The plants' contribution to national output will be

considerable; while the quality of their output will be uneven and not impressive in terms of a modern industrial economy, it will be good enough for the backward Chinese countryside.

The central government in Peiping has established the guide lines for the program and has drawn up blueprints for the plants. Pilot plants have been set up near Peiping to which technicians from the interested localities can come for training and experience. Peiping also has urged the big established enterprises to provide the smaller new ones with technical and other help. This assistance has come sometimes from individual plants and sometimes from an existing industrial center.

Shanghai, for example, has not only launched a program of investing in small plants in neighboring provinces but has agreed to supply the necessary blueprints, to send technicians, and to train students from nearby areas. In a number of instances these small plants will probably serve as satellite sub-contractors of the larger ones, in line with a pattern which persists in Japan.

Economic Decentralization

Along with the creation of a myriad of small producers, Peiping has provided for the transfer of managerial responsibility in industrial and commercial enterprises from the central to the local governments. When the November 1957 regulations were issued, Peiping pointed out that the devolution of authority would apply to only a limited range of enterprises, chiefly in light industry. Most of the major heavy industries, including all defense industries, were to remain firmly under central control.

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In April of this year, however, it was apparently decided that all enterprises would be involved "except some special, key enterprises, or enterprises of an experimental nature." Peiping reported in June that responsibility for some 80 percent of the total number of enterprises under the central industrial ministries had been shifted to the provincial governments. The chances are, however, that the large industrial combines, like the Anshan Iron and Steel Plant, and most defense industry and other "special" enterprises will not be transferred.



SMALL POWER STATION IN SHANTUNG PROVINCE

Even in the case of the plants transferred, the central government retains a strong voice in the operation of the more important plants through its functions in planning and inspection. Only the day-to-day management has been handed over.

Much of the small local industry will probably come under the control of the new "people's communes" which the regime has recently begun to popularize as the coming "basic social unit" in China. These communes in some cases will be quite large. Peiping has indicated that membership will range from 5,000 to 10,000 households. They will have departments in charge of industry, agriculture, commerce, transport, culture, and militia and will thus virtually displace the present echelons of government below the county level.

Cautious as the regime has been in loosening the strings of management of the nation's industry and commerce, it has been even more careful in regard

to the nation's purse strings. The first moves toward assigning more local responsibility in financial matters were taken last November. Regulations published in June serve to increase the local governments' share in some taxes and open up additional sources of income. They now have the authority to issue local construction bonds, exclusive claim on seven types of taxes and a partial claim on four more, the right to levy local surtaxes, and a 20-percent share in the earnings of enterprises located in their area.

However, the regulations also provide that all local budgets must be forwarded to the Ministry of Finance for "inspection, review, and necessary changes." Moreover, local extrabudgetary income, which previously had sometimes escaped the central authorities, will be brought into the local budgets and thus will come under Peiping's purview.

More recently, the central government has issued regulations designed to improve the "management of investment funds." "Full powers" in this field are delegated to the organs directly in charge of the construction projects. These are

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now free to change designs, re-allocate funds, and readjust their work so long as there is no reduction in planned capacity of the project involved, no delay in delivery, no excess costs, and no increase in nonproductive spending.

Political Implications

The achievements of the first half of the year--record levels of industrial growth and unprecedented early harvests--are clearly viewed by the leadership as vindicating its "giant leap forward" policy. The People's Daily took the view that the achievements were so great that it was not necessary to wait for the returns of the second half of the year, especially since the gains thus far are but a "prelude" to even

greater gains in the future. The paper gloated over the rout of the "gloomy clique" which had hoped to "settle accounts" after the fall harvest.

Recent references to opposing elements have, in fact, shown an increasing harshness. So far no individual has been identified as being a member of the "gloomy clique," and it is doubtful that any of the top leaders are members. Mao has been frequently and strongly linked to the "leap." Liu Shao-chi and his chief lieutenants, especially Teng Hsiao-ping and Tan Chen-lin, were early and dedicated advocates.

Chou En-lai has been associated with it since early 1958, and is being given credit for an earlier advocacy. Chen Yun,

the regime's ranking economist, has not publicly associated himself with the "leap" as such but has been connected with the policy reforms which are an integral part of the program. A few other politburo members have either failed to get on the bandwagon or have climbed aboard late in the day, but all of them seem to be in good standing.

Although there is an outside chance that one or another politburo member will be brought down, the better candidates for the "gloomy clique" are at lower levels of power. For example, Teng Tzu-hui, director of the party's rural work department, opposed Mao Tse-tung's speed-up of agricultural socialization in 1955-56 and has since been displaced as the party's



BLACKSMITHS' COOPERATIVE IN SHANSI PROVINCE

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leading spokesman on agriculture. Moreover, Teng's 1957 position on limiting the size of cooperatives has been overturned by the Mao-inspired program of merging cooperatives into "people's communes." There are a few other possibilities among the directors of the party's central departments, and the first secretaries of provincial and municipal party committees. There are also several candidates among the heads of government staff offices and ministries.

Prospects

The regime may be pushing the "leap forward" campaign too hard. Despite the policy changes, there are indications that some of the economic troubles which cropped up in 1956 are reappearing. The People's Daily has complained that the "gloomy clique" is now trying to make an issue out of the raw materials shortage. Actually, shortages of raw materials began to be felt as early as March. The regime at that time insisted it would be able to deal with the "tense" situation, but its remedies were limited to promoting the use of substitutes and urging reduced consumption and the salvaging of used materials. The problem was still "paramount" in July.

Transport congestion has been felt this year earlier

that it was in 1956. The party's main spokesman in the field recently warned that the "tremendous pressures" already apparent would continue to increase. "Bottlenecks," he said, were already hampering rail movements. He urged a speeding up of construction on new facilities. Neither of these problems is yet as widespread or as serious as they became in 1956, however, and there has been no sign yet of similar financial strains.

The leadership, heavily committed to the "leap" and aware that opposition elements have been waiting for statistical support for their charges of recklessness, may have rushed the publication of the statistical report for the first half of the year before the supporting figures could be adequately checked. This would appear to be most likely in the case of agriculture.

Great gains have almost certainly been made in the course of the "leap." Rates of growth in both industry and agriculture have been stepped up and economic reforms which should be of continuing value have been effected. While a slowdown seems inevitable, the chief exponents of the "leap" have isolated an opposing group which can be blamed for the slowdown if necessary.

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## JAPANESE-AMERICAN RELATIONS

On his visit to Washington on 11 and 12 September, Japanese Foreign Minister Aichiyo Fujiyama intends to discuss problems connected with revision

of the US-Japanese security treaty, ways to increase Japanese exports to the United States, economic assistance for Southeast Asia, and relations

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with Communist China. Prime Minister Kishi believes the visit will be a key to long-term cooperation and that



FUJIYAMA

it will counter widespread charges that Tokyo is subservient to the United States on issues affecting Japanese interests.

Kishi believes his own visit to Washington in June 1957 achieved limited success, particularly the abolition of the China differential trade embargo and agreement on disposition of Japanese war criminals. However, he feels the adjustments made in security arrangements lacked substance. Remaining issues were left unsettled and several now have assumed crucial importance for Kishi's government.

Priority attention is being given to the need for sweeping changes in security relations. Many Japanese feel that the present "one-sided" security treaty was imposed as a price of a peace treaty in

1952. The Socialists and other leftists have been able to foment public antagonism toward the treaty by charging that it infringes on Japanese sovereignty.

Fujiyama will seek a revision which would specifically require Japanese Government approval before nuclear weapons are brought to Japan and before American forces and equipment in Japan are dispatched for use in hostilities outside the country. Concern among Japanese that action by Japan-based forces might involve their country involuntarily in hostilities in other areas

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Fujiyama will also seek some Japanese control over the use and disposition of American forces in Japan.

Occupying almost equal importance on Fujiyama's agenda is the problem of cooperation in the economic development of Southeast Asia. Unlike a year ago, when Kishi proposed a detailed plan for an Asian development fund, the Japanese are prepared to listen to American proposals. They have taken special note of US interest in regional development programs for Latin America and the Middle East and have been encouraged by President Eisenhower's recently announced intention to strengthen the World Bank and establish an international development association, which

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they hope will coincide with their own plans for Asian development.

Fujiyama probably will call for a plan to stabilize raw material prices in Southeast Asia and emphasize the need for urgent action to counter developing Communist economic penetration of that area. Communist China's call for a boycott of Japanese goods by Overseas Chinese in Southeast Asia and its campaign to undersell Japanese products there have aroused serious concern in Japan.

Tokyo is looking to the United States as the major financier of a program for developing Southeast Asia. Japan's ability to contribute to such a program is limited. It has appropriated approximately \$14,000,000 in its current budget as a contribution in the event a program is established, but its limited fiscal resources are already heavily committed. Japanese reparations to countries in the area total about \$70,000,000 annually, a credit of \$50,000,000 has been extended to India, another of \$20,000,000 has been approved for Burma, and similar action may be taken on requests from Pakistan and Ceylon. Fujiyama may propose, however, that some \$600,000,000 which Japan owes the United States for relief expenditures in Japan following World War II be utilized in an Asian development program.

An accommodation with Communist China probably is the Kishi government's most controversial and complex problem. The prime minister's dilatory policy on the impasse with Peiping is receiving ever-increasing criticism from business and labor interests, the press, Socialists, many conservative leaders, and at least two of his own cabinet members. Communist China's economic campaign in Southeast

Asia and the recent relaxation of the COCOM embargo, which many Japanese fear will give European commercial interests a foothold on the mainland while trade with Japan is suspended, have spurred demands for government action to break the stalemate.

Kishi continues to assert that he will "wait and see" but recently told Ambassador MacArthur he is becoming isolated in this view and requires definite support, such as American assistance in the Asian development program, which would allow Japan to expand markets in Southeast Asia to replace those "lost" on the China mainland. Fujiyama, who has indicated that Japan is planning ambassadorial talks with Communist China if the government cannot find another way of reducing Japanese pressures for China trade, probably will attempt to discern how far Tokyo can go toward closer relations with Peiping without alienating the United States. Tokyo insists that any efforts toward a rapprochement with Communist China will not include diplomatic recognition.

Finally, Fujiyama will discuss in a general way methods for expanding Japanese markets in the United States. The Japanese experienced a deficit of more than one billion dollars in trade with the United States in 1957, about half of which was offset by special US dollar expenditures in Japan. In an attempt to close the dollar gap, the Japanese had begun to switch some purchases of soybeans from the United States to Communist China prior to Peiping's suspension of Sino-Japanese trade, and have been considering switching purchases of various commodities elsewhere.

The trade deficit with the United States during the first half of 1958 was approximately \$275,000,000--about half that

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of a year ago. Special US dollar expenditures in Japan, however, have declined about 18 percent, and the trade improvement has resulted principally from a drop in Japanese imports under the present "tight money" policy rather than from an expansion of exports. Fujiyama,

therefore, probably will seek an understanding on general principles which the United States will follow in order to close the trade gap when Japan's economy begins to recover, which is expected shortly, and Tokyo expands its import programs.

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**THE COMMONWEALTH ECONOMIC CONFERENCE**

The Commonwealth Economic Conference opening at Montreal on 15 September--the first such full-scale meeting since 1952--is likely to show a somewhat diminished role for Britain and a growing divergence between the older and newer Commonwealth countries as to the means of overcoming their economic problems. Older members such as Canada and Australia are concerned primarily about the inadequacy of monetary reserves, while the newer, less developed members like India and Ghana insist that the immediate problem is the need for stabilizing prices of raw materials.

**Earlier Conferences**

Despite the continuing importance of the sterling area in world trade, the years since the 1952 economic conference have seen a general loosening of Commonwealth ties and an intensification of the tendency to seek economic arrangements outside the Commonwealth framework. Discussions at the current meeting will in part look forward to the October conference of the International Monetary Fund and World Bank and be directed toward achieving a more comprehensive free-world attack on such problems as increasing monetary reserves, stabilizing trade, and accelerating economic development.

The increased importance of underdeveloped countries

in Commonwealth councils is seen in the broader composition of the September conference, which will include the newest Commonwealth members, Ghana and Malaya, as well as colonial representatives from the West Indies Federation inaugurated early this year.

Britain's gradually declining ability to provide investment capital and other tangible economic benefits to the other Commonwealth members was reflected in the conference preparations. Contrary to the usual procedure whereby Britain initiated all such conferences, this one was proposed by Canadian Prime Minister Diefenbaker at the annual meeting of Commonwealth finance ministers last September. It is also the first one to be held outside London and the first in which papers will have been prepared by Commonwealth members other than Britain.

**COMMONWEALTH CONFERENCE  
AGENDA**

- Significance of changes in world trade.
- Measures to expand trade among Commonwealth countries.
- Commonwealth economic expansion and provision of development capital.
- Progress toward freer trade and payments.
- Economic and trade problems in regard to agriculture and other primary production.
- Commonwealth and European Free Trade Area.

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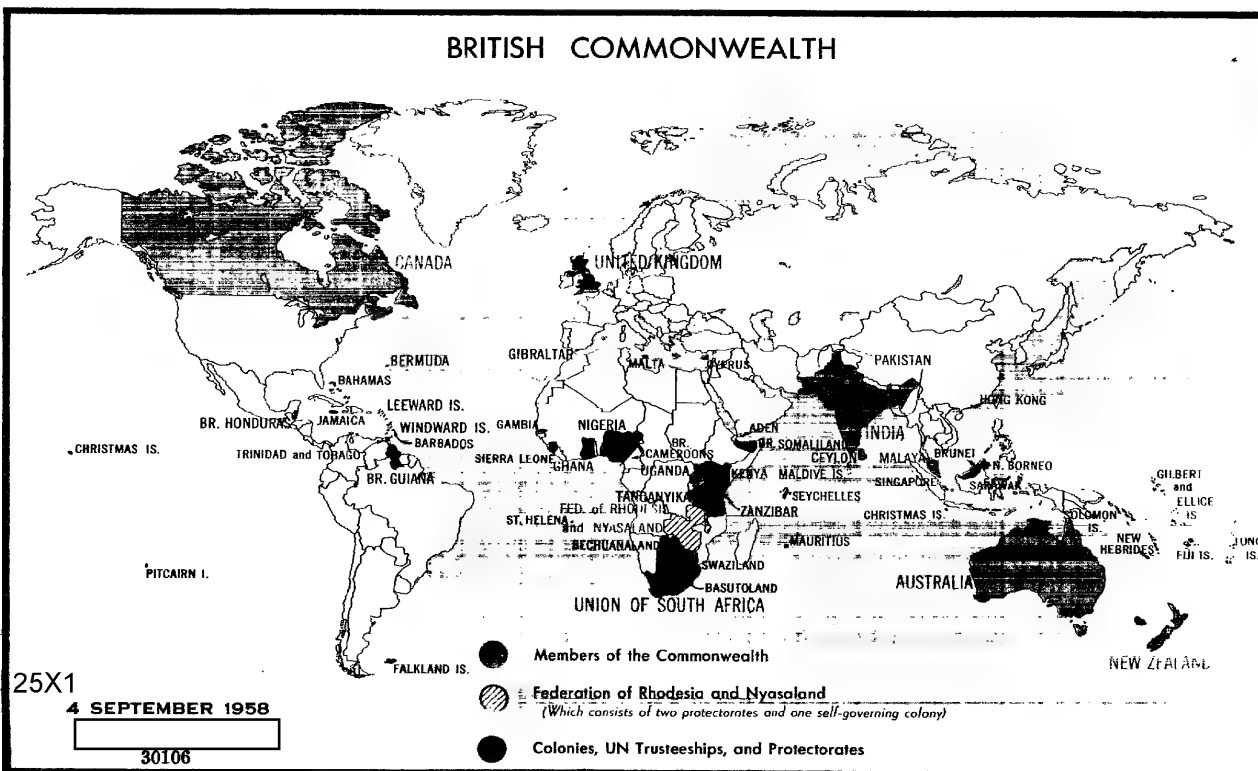
The conference proposal received a lukewarm reception at first by most of the Commonwealth members. The Diefenbaker initiative was generally considered a political gesture by the new Canadian Conservative government which had pledged during the previous spring's election campaign to lessen Canada's economic dependence on the United States and to strengthen its Commonwealth ties.

Britain, however, took up the proposal enthusiastically, apparently in the hope that such a meeting might be used to revive confidence among sterling area members who were becoming increasingly alarmed by recurring stresses on sterling. Australia, for instance, in expressing its doubts about the long-term prospects for the sterling area's survival to American Embassy officials in Canberra early this year,

wondered whether the United States was thinking of possible alternatives or remedial measures that might be adopted. However, Britain's current relatively strong financial position, compared with its financial crisis last fall, has removed the sense of urgency for concrete results.

**Conflict of Interests**

The preparatory discussions held in London in February and again in June illustrated the disparity of views among Commonwealth members on the relative priority of the agenda items. Of greater importance, however, is the contrast the talks furnished of the opposing economic interests of the older and newer members. Australia's concern with the inadequacy of monetary reserves is shared by Canada, New Zealand, and South Africa, which are among the world's most

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the conference. For a variety of reasons, the Macmillan government has decided not to present the only two positive proposals it was prepared to offer at the meeting: a Commonwealth bank along the lines of the World Bank and a Commonwealth free trade area, both of which are believed to have been pet projects of the prime minister himself.

London is expected to resist pressure for a Commonwealth initiative in seeking international commodity agreements and the establishment of a Commonwealth development agency similar to that of the US Development Loan Fund established in 1957. While acknowledging the need for a new approach to commodity problems, Britain appears determined to retain its traditional flexibility and to avoid any pat formula on issues of Commonwealth trade and aid. In view of its limited maneuverability and capacity to supply funds, London apparently prefers to deal with each situation as it arises on an ad hoc basis, as, for example, in the plan to relieve India's critical foreign exchange shortage in cooperation with the United States, Japan, West Germany, Canada, and the World Bank.

The inclusion in the delegation of Paymaster General Maudling, Britain's negotiator on European free trade area questions, indicates the importance London continues to attach to achieving Commonwealth agreement on this major objective of the Macmillan government. While Maudling will be pressed to renew assurances that the preferences given Commonwealth agricultural exports to Britain will be protected, he presumably will explore the extent to which these preferences might be modified if necessary to secure Continental agreement on the free trade area. Maudling is not known to be entertaining any specific compromise plan.

Fortunately from the British view, however, the sense of urgency in which the conference was conceived no longer exists. London can exploit the very substantial improvement in its financial position in recent months as evidence of the recuperative powers and basic strength of the pound sterling. The anticipated pickup in American production this autumn--which would probably raise prices for raw materials--may also lessen the pressure for Commonwealth action on commodity problems.

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## LATIN AMERICAN INTEREST IN A COMMON MARKET

The early August declaration by the foreign ministers of Venezuela, Colombia, and Ecuador, which called among other things for a "common market" among their three countries illustrates the increased interest in regional marketing arrangements that has prevailed

in Latin American economic and financial conferences since 1955. Present political conditions and trade patterns in Latin America do not favor regional economic integration like that of the European Economic Community (EEC) or Common Market, and the Latin Americans seem

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primarily concerned with using joint action to accelerate industrialization. Such moves, however, may be symptomatic of a growing interest in economic self-help, and experience in regional marketing problems may lead to some reduction of trade barriers.

Apart from an agreement among the governments of five Central American republics on a very limited treaty "for multilateral free trade and integration," which now is subject to ratification, Latin American action toward a regional market has been restricted to pronouncements, discussion, and study. All of these reveal that the Latin American approach is markedly different from that of the EEC and in many respects contrary to the intent of the General Agreement on Tariffs and Trade (GATT) to increase competition and promote efficient use of resources.

**Common Market Concept**

There is a striking contrast between Latin American and Western European politico-economic conditions as they relate to possibilities for economic integration.

In the EEC there are six mature economies which conduct about one third of their total trade with each other. They are strongly motivated politically toward union to avert repetition of costly wars and to tie West Germany to the West. An integrated economy and community is seen as the only means of re-establishing Europe's traditional world influence.

In Latin America, on the other hand, there are 20 nationalistic, underdeveloped republics which conduct less than 10 percent of their total trade with each other. Although

they are members of the oldest existing regional political grouping, they have had no experience in economic cooperation comparable to that of Western Europe in the Organization for European Economic Cooperation (OEEC) under the aegis of the Marshall Plan.

Several of the Latin American countries also lack the technical skills in international trade and finance necessary to coordinate national economic policies. The problem of coordinating a common market for 20 countries, as contrasted with six in the EEC, would be additionally complicated by the vastly greater distances involved. This may tend to encourage smaller regional groupings.

EXPORTS OF LATIN AMERICA AND THE EUROPEAN COMMON MARKET AREA, 1955 (MILLION DOLLARS)								
EXPORTING AREA		AREA OF DESTINATION						
		LATIN AMERICA		COMMON MARKET		UNITED STATES		TOTAL
LATIN AMERICA		736	9.4	1,064	11.0	3,529	45.2	7, 811
COMMON MARKET		1,123	6.1	5,643	35.8	1,162	6.3	18, 527
UNITED STATES		3,158	20.9	2,354	15.1	-	-	15, 547



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The decline in world prices of their primary commodities such as coffee and nonferrous metals since 1956 led to acute balance-of-payments problems for most Latin American countries and gave much impetus to the search for a common market solution. It also intensified resentment against the United States for the "inadequacy" of its financial aid to Latin America and for its resistance to commodity price stabilization arrangements.

Specialists on the staff of the Economic Commission for Latin America (ECLA) see the common-market approach as a means of ameliorating payments difficulties while maintaining desired levels of industrial development. They contend that creation of export industries within such a protective arrangement would enable member countries to ease foreign-exchange shortages by promoting regional self-sufficiency. These experts also think in terms of applying the common-market principle only to specific industries and commodities.

Furthermore, the Brazilian director of currency and credit has recently cited redress of bargaining power against the United States and the EEC as a major aim of a regional Latin American market. These views are clearly contrary to the spirit, if not the letter, of Article XXIV of the GATT which authorizes establishment of a

common market and stipulates that it shall not raise barriers to trade with other GATT members and shall embrace substantially all trade originating in such an area.

Prospects in Latin America

Establishment of a common market can be achieved only over a period of many years; 12-15 is anticipated even in the case of the EEC. Few, if any, Latin American governments have demonstrated sufficient stability and continuity of policy to justify any expectation that they could maintain the orderly direction required.

On the other hand, there is considerable scope for increased trade between Latin American countries, particularly in agricultural products and light manufactures, that could be stimulated through limited joint marketing arrangements. In their recent consideration of such possibilities, Latin Americans have shown increasing appreciation of the need to eliminate import quotas and payments restrictions as a first step toward promoting such trade. As the infeasibility of an all-embracing "common market" and the need for eliminating trade restrictions come to be more widely appreciated in Latin America, the current interest in a "common market" will serve US interests in maximizing world trade.

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